

SUPPORTING STATEMENT
for the Paperwork Reduction Act Information Collection Submission for
Rule 606 of Regulation NMS

A. Justification

1. Necessity of Information Collection

This information collection is required under Rule 606 and Section 17(a) of the Securities Exchange Act of 1934 (“Exchange Act”). The Commission adopted Rule 606 f/k/a Rule 11Ac1-6 as part of Regulation NMS.¹ The order routing information required by Rule 606 is necessary to further the national market system objectives. These objectives include the economically efficient execution of orders, fair competition among broker-dealers and among markets, the availability to broker-dealers and investors of information with respect to transactions in securities, and the practicability of broker-dealers executing investors’ orders in the best market.

2. Purpose and Use of the Information Collection

The purpose of the information collection is to make information about order routing practices available to the public. The information disclosed by Rule 606 is used by investors and broker-dealers. Investors use the information in selecting a broker-dealer and in determining whether the broker-dealers they have chosen are making sound order-routing decisions. Broker-dealers use the information to compete on the basis of order routing services.

If the Commission did not require broker-dealers to disclose this information, then investors would be unable to evaluate whether their orders were being routed to a market center that provides superior executions, and there would continue to be limited opportunities for fair competition among broker-dealers based on the quality of their order routing services.

3. Consideration Given to Information Technology

Rule 606 requires broker-dealers to prepare and disseminate quarterly order routing reports. Much of the information needed to generate these reports already should be collected by broker-dealers in connection with their periodic evaluations of their order routing practices. Broker-dealers must conduct such evaluations to fulfill the duty of best execution that they owe their customers under agency law. To comply with the Rule, however, broker-dealers would incur additional burdens in preparing the reports and disseminating them on a free Internet Web site (and responding to requests for written copies of the reports).

Broker-dealers are not prohibited from using any technology that facilitates consumer understanding and that permits review, as appropriate, by the Commission or other appropriate

¹ See Securities Exchange Act Release No. 51808 (June 9, 2005), 70 FR 37496 (June 29, 2005).

regulatory authorities.

4. Duplication

Duplication of information is not a concern; the reported information is not duplicated elsewhere.

5. Effect on Small Entities

Under the standard for determining whether a broker-dealer is a small entity in Exchange Act Rule 0-10(b), the Commission estimates that approximately 1 broker-dealer subject to Rule 606 is a small entity. If this small entity were required to comply with the Rule, the Commission staff estimates that it would expend, on average, 32 hours to prepare quarterly reports and 2 hours to respond to eight customer requests. Assuming internal compliance costs that average \$96 per hour, the aggregate compliance cost for this small entity to comply with the Rule is estimated to be \$3,264.

6. Consequences of Not Conducting Collection

The quarterly disclosures required by Rule 606 allow customers periodically to evaluate and monitor their broker-dealer's order routing decisions. A less frequent collection would limit investors' opportunities to undertake this critical evaluation.

7. Inconsistencies with Guidelines in 5 CFR Part 1320.5(d)(2)

There are no special circumstances. This collection is consistent with the guidelines in 5 CFR 1320.5(d)(2).

8. Consultations Outside the Agency

The required Federal Register notice with a 60-day comment period soliciting comments on this collection of information was published. No public comments were received.

9. Payment or Gift

Not applicable.

10. Confidentiality

Not applicable.

11. Sensitive Questions

Not applicable; no information of a sensitive nature is required under the regulation. The information collection does not collect any Personally Identifiable Information (PII).

12. Burden of Information Collection

The collection of information obligations of Rule 606 apply to broker-dealers that route non-directed customer orders in covered securities. The Commission estimates that there are currently 266 broker-dealers that are potentially subject to the collection of information obligations of Rule 606.² Each of these respondents (if engaged in the business of routing non-directed orders on behalf of customers) is required to respond to the collection of information on a quarterly basis with respect to the Rule's reporting obligations, and on an ongoing basis with respect to the Rule's requirement to respond to customer requests for order routing information. The Commission believes, however, that clearing brokers primarily bear the burden of complying with the reporting and recordkeeping requirements of the Rule on behalf of small to mid-sized introducing firms. There currently are approximately 185 clearing brokers.³ In addition, there are approximately 81 introducing brokers that receive funds or securities from their customers.⁴ Because at least some of these firms also may have greater involvement in determining where customer orders are routed for execution, they have been included, along with clearing brokers, in estimating the total burden.

The Commission staff estimates that each firm significantly involved in order routing practices will incur an average burden of 40 hours to prepare and disseminate a quarterly report required by Rule 606, or a burden of 160 hours per year. With an estimated 266 broker-dealers significantly involved in order routing practices, the total industry-wide burden per year to comply with the quarterly reporting requirement in Rule 606 is estimated to be 42,560 hours (160 x 266).

Rule 606 also requires broker-dealers to respond to individual customer requests for information on orders handled by the broker-dealer for that customer. Clearing brokers generally bear the burden of responding to these requests. The Commission staff estimates that an average clearing broker will incur an annual burden of 400 hours (2000 responses x 0.2 hours/response) to prepare, disseminate, and retain responses to customers required by Rule 606. With an estimated 185 clearing brokers subject to the Rule, the total industry-wide burden per year to comply with the customer response requirement in Rule 606 is estimated to be 74,000 hours (185 x 400).

2 2014 FOCUS and Form Custody data.

3 2014 FOCUS data.

4 2014 Form Custody data.

13. Costs to Respondents

Not applicable; (a) it is not anticipated that respondents will have to incur any capital or startup costs to comply with the rule; (b) it is not anticipated that the respondents will have to incur any additional operational or maintenance cost (other than provided for in item no. 12) to comply with the rule.

14. Costs to Federal Government

Not applicable.

15. Changes in Burden

The decrease in burden is a result of a decrease in the estimated number of respondents due to a change in the method for estimating respondents in the period since last renewal. The current method for estimating of the number of clearing broker-dealers and broker-dealers that are small entities uses consolidated FOCUS data; the number of introducing brokers that receive funds or securities from their customers is now estimated using Form Custody data.

16. Information Collections Planned for Statistical Purposes

These are disclosures from brokers to the general public and to specific consumers who request certain information. The Commission is not collecting data. The Commission has no information to publish and no plans to publish any data for statistical or other purposes.

17. Approval to Omit OMB Expiration Date

Not applicable. The Commission is not seeking approval to omit the expiration date.

18. Exceptions to Certification for Paperwork Reduction Act Submissions

Not applicable. This collection complies with the requirements in 5 CFR 1320.9.

B. Collection of Information Employing Statistical Methods.

Not applicable.